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FISCAL IMPACT STATEMENT

LS 6942 | **NOTE PREPARED:** Jan 7, 2010
BILL NUMBER: HB 1227 | **BILL AMENDED:**

SUBJECT: Space Transportation Technology Development.

FIRST AUTHOR: Rep. Reske | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State
X **DEDICATED**
FEDERAL

Summary of Legislation: This bill includes space transportation technology in various programs for encouraging the development of high technology in Indiana. It specifies that new research and development equipment for space transportation technology is eligible for abatement in economic revitalization areas. It specifies that the purchase of research and development equipment for space transportation technology is eligible for a Sales Tax exemption. It provides a deduction from the Adjusted Gross Income Tax equal to the amount of casualty loss deducted from the taxpayer's federal adjusted gross income with respect to the loss of a space vehicle owned by the taxpayer. It requires the Department of Transportation to develop policies and programs to encourage research and development enabling the ingress and egress into low earth orbit and near space from Indiana spaceports. The bill also designates the geographic area on or near the Columbus Municipal Airport as Indiana's primary spaceport and the geographic area on or near the Anderson Municipal Airport as Indiana's secondary spaceport. It authorizes the Columbus Board of Aviation Commissioners to establish an Airport Development Zone.

Effective Date: July 1, 2010; January 1, 2011.

Explanation of State Expenditures: *Department of State Revenue (DOR)*: The DOR will have to revise tax forms, instructions, and computer programs to reflect the new Sales Tax exemption, the new Adjusted Gross Income (AGI) Tax deduction, and the addition of Columbus Municipal Airport as an Airport Development Zone if so designated. The DOR's current level of resources should be sufficient to implement these changes.

Indiana Economic Development Corporation (IEDC): This bill includes space transportation technology to be included in the following IEDC programs: Emerging Technology Grant Fund; Technology Development

Grant Fund; Enterprise Zones; and Industrial Development Loan Guaranty Program. These provisions may increase the IEDC's workload and administrative costs due to the expansion of these programs.

Indiana Department of Transportation (INDOT): The bill requires INDOT to develop policies and programs to encourage research and development enabling the ingress and egress into low earth orbit and near space from the Indiana spaceports. INDOT is required to collaborate with the IEDC, National Center for Future Space Exploration, the private sector, state educational institutions, the federal government and other state agencies to implement the provisions of this bill. The bill's requirements represent an additional workload on INDOT outside of the agency's routine administrative functions, and existing staffing and resource levels, if currently being used to capacity, may be insufficient for full implementation. The additional funds and resources required could be supplied through existing staff and resources currently being used in another program or with new appropriations. Ultimately, the source of funds and resources required to satisfy the requirements of this bill will depend on legislative and administrative actions.

Explanation of State Revenues: *Sales Tax Exemption*: This bill add the purchase of research and development equipment for space transportation technology to the Sales Tax exemption for research and development equipment beginning in FY 2011. The revenue loss that would be attributable to this exemption is indeterminable. Sales Tax revenue is deposited in the state General Fund (99.178%), the Public Mass Transportation Fund (0.670%), the Commuter Rail Service Fund (0.123%), and the Industrial Rail Service Fund (0.029%).

Income Tax Deduction: The bill provides a deduction from the AGI Tax equal to the amount of casualty loss deducted from the taxpayer's federal adjusted gross income with respect to the loss of a space vehicle owned by the taxpayer beginning in tax year 2011, which would impact FY 2012. The revenue loss that would be attributable to this deduction is indeterminable. Revenue from the AGI Tax is distributed to the state General Fund.

Airport Development Zone: This bill provides that the Columbus Municipal Airport may be designated as an Airport Development Zone by the Columbus Board of Aviation Commissioners, effective July 1, 2010. If so designated, several tax incentives would be available for the airport area that are available to Enterprise Zones, including the Employment Tax Deduction, the Employment Expense Credit, the Loan Interest Credit, the Neighborhood Assistance Credit, and the Investment Cost Credit. These incentives may be taken against AGI, Financial Institutions, or the Insurance Premiums Tax liabilities, which would serve to reduce revenue to the General Fund by an indeterminable amount.

<u>*Background Information*</u> - *Employee Tax Deduction*: This tax deduction is for qualified employees of an Enterprise Zone business. The qualified employee is an individual who is employed by a taxpayer where the employee's principal place of residence is in the Enterprise Zone where the employee is employed. Qualified employees include employees of a financial institution, insurance company, and an international banking facility. Also included are employees of a nonprofit entity, the state, a political subdivision, or the United States Government. The qualified employee is entitled to a deduction from their AGI equal to the lesser of; (1) half of the AGI for the taxable year earned as a qualified employee; or (2) $7,500.

In tax year 2007, 38 individuals claimed about $240,000 in deductions for qualified Airport Development Zones.

Employment Expense Credit: This credit is for employers that hire qualified employees that live and work half of the time in the Enterprise Zone. The credit is equal to the lesser of 10% multiplied by the qualified increased employment expenditures of the taxpayer for the taxable year; or $1,500 multiplied by the number of qualified employees employed by the taxpayer during the taxable year. The tax credit can be carried forward for 10 years or carried back for 3 years.

For tax year 2007, 5 individuals claimed about $8,400 in credits for qualified Airport Development Zones, and 40 corporate taxpayers claimed about $872,000 in Employment Expense Credits for qualified Enterprise Zones.

Loan Interest Credit: The Loan Interest Credit is a nonrefundable tax credit that a taxpayer may claim against the AGI Tax, the Financial Institutions Tax, or the Insurance Premiums Tax. It is equal to 5% of the interest a taxpayer receives during the taxable year on qualified loans to businesses or individuals for specified uses in an Enterprise Zone. The credit can be carried forward for 10 years.

In tax year 2007, three individual taxpayers claimed about $1,200 in Loan Interest Credits for qualified Airport Development Zones. Twenty corporate taxpayers claimed about $2.5 M in credits for qualified Enterprise Zones for tax year 2007.

Neighborhood Assistance Credit: The Neighborhood Assistance Credit is for Indiana taxpayers who contribute to individuals, groups, or neighborhood organizations or who engage in activities to upgrade economically disadvantaged areas for economically disadvantaged households. This credit is limited to the lesser of 50% of the amount contributed or invested, state income tax due, or $25,000 in any taxable year. The credit can be applied against the taxpayer's AGI tax or Financial Institutions Tax liabilities. The tax credit may not be refunded, carried back, or carried forward. The total amount of Neighborhood Assistance Credit allowed to all taxpayers in any state fiscal year is limited to $2.5 M.

In tax year 2007, 3,488 individual taxpayers claimed about $2.2 M in credits. For tax year 2007, 6 corporate taxpayers claimed about $9,650 in Neighborhood Assistance Credits.

Investment Cost Credit: Under current statute, the Investment Cost Credit may be claimed against the AGI Tax by taxpayers purchasing an ownership interest (an equity investment) in an Enterprise Zone business. The Investment Cost Credit is equal to a maximum of 30% of the equity investment. The credit percentage allowed (up to 30%) varies depending upon the type of investment, the type of business, and the number of jobs created. The credit is nonrefundable, but a taxpayer may carry over excess credits to subsequent taxable years.

Individual taxpayers did not claim Investment Cost Credits in tax years 2005 through 2007 for Airport Development Zones. Data for corporate taxpayers was not available.

Revenue from the AGI Tax on individuals and corporations, the Financial Institutions Tax, and the Insurance Premiums Tax is distributed to the state General Fund.

Airport Development Zones: IC 8-22-3.5-1 authorizes the following areas to establish Airport Development Zones:
(1) Marion County;
(2) City of Gary, IN;
(3) Vigo County;
(4) Allen County;

(5) Vanderburgh County;
(6) Delaware County; and
(7) City of Anderson, IN.

Explanation of Local Expenditures:

Explanation of Local Revenues: *Property Tax Abatements:* Under current law, new manufacturing equipment and new research & development equipment may qualify for property tax abatements. Qualifying R&D property consists of laboratory equipment, R&D equipment, computers and software, telecommunications equipment, and testing equipment that is used in R&D activities devoted exclusively to R&D of new products, new uses of existing products, or the improvement or testing of existing products. This provision would add space transportation services to the list of qualifying uses for the R&D property.

If there is an increase in development because of this provision, the new property would, at some point, be placed on the tax rolls. This could help spread the property tax burden and could possibly reduce some tax rates. However, if one assumes that the investment would be made with or without the abatement, an increase in abatements could also cause a delay of the shift of the property tax burden from all taxpayers to the owners of the new property until the property is placed on the tax rolls. In all cases, the granting of an abatement is a local decision.

Income Tax Deduction: Because the income tax deduction equal to the amount of casualty loss deducted from the taxpayer's federal adjusted gross income for the loss of a space vehicle will serve to decrease taxable income, counties imposing local option income taxes may experience a decrease in revenue from these taxes.

Airport Development Zone: If the Columbus Municipal Airport is designated as an Airport Development Zone, businesses located in the zone will have to pay a fee equal to the amount required for enterprise zone businesses, which is currently 1% of the tax incentives claimed. This fee would be deposited in the debt service fund established for the Airport Development Zone.

Bartholomew County: Because the Employee Tax Deduction would decrease taxable income, Bartholomew County may experience a decrease in revenue from the County Adjusted Gross Income Tax (CAGIT), and the County Economic Development Income Tax (CEDIT).

State Agencies Affected: DOR; IEDC; INDOT.

Local Agencies Affected: City of Columbus; Bartholomew County; Counties imposing local option income taxes.

Information Sources:

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